working for export, especially the timber and plywood industries. This was followed by a general decrease of activity throughout the industries supplying the home trade, such as the textile industry, owing to the fall in agricultural purchasing power arising out of the decrease of exports. This movement was further accelerated by the credit crisis of 1931 and the moratorium on banking withdrawals; and by 1932 the monthly average total of unemployed was well over 14,000.[1]

Meanwhile, in the autumn of 1931 there was a general increase in Customs duties, and a system of import quotas and exchange restrictions was introduced. All these measures greatly increased the tendency towards industrial self-sufficiency, which now became the acknowledged policy of the Government. There was consequently a considerable increase in the activity of the consumption industries, especially the textile sections, which, as in Estonia, increased their consumption of home-grown flax. This led in turn to an increase of activity in the production goods industries. At this stage the export industries began to experience a recovery, and by the end of 1934 the building boom in the United Kingdom began to have an appreciable effect on the plywood industry and saw-mills. There was also a marked recovery in the paper and cellulose industry.

Up to this point industrial expansion had followed the normal course of recovery from a severe recession. This recovery had taken place for the most part within the limits of the existing industrial apparatus. Few fresh industries had been started, and the relations existing between industry and the State before 1930 had, for the most part, been maintained. The advent of the totalitarian system in 1934, however, has been followed by an entirely new industrial policy. This policy does not consist merely in an attempt to attain the greatest degree of self-sufficiency. Its purpose would seem rather to be the introduction of a form of State capitalism or, at any rate, a system in which the State is able to exert direct control over the industrial organization. It will be seen how the State, by its relation to the co-operative system, is able to exert a considerable degree of control over agriculture and dairy farming. This, however, is a policy which the State is generally compelled to pursue in a poor country of small farmers. That such a policy should be applied to a relatively large industrial organization, which had hitherto relied on private enterprise, was a considerable innovation.

The policy began to be put into effect first through the *Latvijas Kreditbanka*,[2] a commercial bank formed by the State in 1935. By the purchase of majority shareholdings, this organization soon

[1] i.e. demands for work according to the official returns.
[2] On this, see further pp. 184–5.

471 acquired a considerable interest in industries of a very varied
652 nature, in determining the policy of which it is naturally instigated
655 by the desires of the State. During 1936 and 1937, however, the State itself has been acquiring a direct shareholding interest in a number of concerns, of which may be mentioned a large metallurgical works in Riga, and a large brick factory. Even in the timber industry the Government is in a position to control auction sales, and is itself an exporter. Almost the only branch of industry which has so far remained free from the direct or indirect influence of the State is the textile manufacturing industry.[1] How far this policy will be pursued
[185] it is impossible to say. The President stated in April 1937 that the Government wished the entire Latvian population to participate in the progress of industry by taking a direct shareholding interest, and appealed to the public to purchase shares in the new State brickworks, even suggesting that the State might guarantee dividends.

433 *Lithuania.* Developments in Lithuanian industry since the crisis
457 have been on the whole inconsiderable. Though severe restrictions were placed on imports in 1935, the existing industrial system was too small to bear the strain of a thoroughgoing policy of self-sufficiency, and, in any case, the lack of foreign exchange and foreign credit has prevented the import of sufficient plant to make it possible. Nevertheless, there has been some expansion in the textile industry since 1930, and in 1936 there were as many as 5,000 persons employed in this branch, though the figure includes those employed in Memel. The result has been some decrease in the import of textile piece goods and an increase in the import of yarns and raw materials.
[477] A further development of some importance has been the growth of trusts and combines, mainly in the foodstuffs and brewing industries, which have arranged for the regulation of output and the fixing of prices.[2]

II. FOREIGN TRADE AND BALANCE OF PAYMENTS, 1931–7

1. General Movement

439 It has been seen that the foreign trade of Estonia and Latvia had already begun to decrease before 1931. With the onset of the financial crisis of that year, the decrease in the trade of all three countries rapidly gathered momentum. The value of exports (expressed in Swiss francs) did not finally reach their lowest level until 1933 for

[1] The State, however, has recently taken an interest in a newly formed company concerned with the production of woollen textiles (*Frankfurter Zeitung*, August 21, 1937). It may be added that the State is interested also in shipping; see below, Appendix II, p. 191.

[2] Details are given in D.O.T.: *Economic Conditions in Lithuania, November, 1935*, publ. 1936, pp. 15–16.

439 towards the centralization of the chief exports in the hands of the
471 State or of organizations closely connected with the Government. This movement is no new thing; in Latvia a flax monopoly was instituted shortly after the War, and in all three countries the predominant position occupied by the co-operative system in the production of bacon and butter tended to give that system (particularly in Lithuania[1]) a predominant position also in the export of the commodities concerned. But its progress has been greatly accelerated since 1930 by the vital need to encourage exports in order to obtain the resulting foreign exchange, and, since 1933, by the advent of semi-authoritarian régimes in Estonia and Latvia. The tendency has
● [655] been most marked in Estonia. During 1936 and the early part of 1937, the Government established autonomous State organizations which were given a monopoly of the export of butter, eggs, pigs, and bacon.[2] In Latvia the system of granting actual monopolies of export has not been much employed in recent years except in the case of flax, but since the export of most of Latvia's agricultural products was dependent on subsidies from the State, at any rate until the abandonment of the gold standard, the control which the State can exert over the export trade is considerable. It is also clear that since, in all three countries, the State actually owns a large proportion of the forests, the State is able to control the export of timber.

2. Principal Commodities

439 Tables are given on pp. 160–3 showing the value (expressed in Swiss francs) of the principal exports and imports in 1932, one of the worst of the crisis years, and the last two years for which comparable figures are available. The annual average for 1928–30 is given for purposes of comparison.

Changes in Nature of Imports. The most significant change during the past six years has been in the nature of imports, and arises, as already mentioned, from the attempt of these States to achieve a
[256] greater degree of self-sufficiency. Before the crisis about 14 per cent. of the imports of Estonia and Latvia consisted of grain and flour. Since 1931 the efforts made in both countries to increase agricultural production have been so successful that grain imports have been very substantially reduced.[3] Latvia, which formerly imported more grain, both relatively and absolutely, than Estonia, has even

[1] For details of the Government's control of foreign trade in Lithuania as operated through the co-operative system, see D.O.T.: *Economic Conditions in Lithuania, November 1935*, publ. 1936, p. 3.

[2] These monopolies are exercised by the co-operative societies *Võieksport* (butter), *Munaeksport* (eggs), and *Lihaeksport* (pigs and bacon). See *Estonia: Population, Cultural and Economic Life*, ed. A. Pullerits, Tallinn 1937, pp. 132–6.

[3] Owing to the partial failure of the 1936 harvest, Estonia was, however, compelled to import small quantities of grain during that year and 1937.